

HOUSE BILL REPORT

2SSB 6558

As Reported by House Committee On:
Finance

Title: An act relating to the state of Washington's economic, cultural, and educational standing in the motion picture industry.

Brief Description: Improving the state of Washington's economic, cultural, and educational standing in the motion picture industry.

Brief History:

Committee Activity:

Finance: 2/22/06, 2/27/06 [DPA].

**Brief Summary of Second Substitute Bill
(As Amended by House Committee)**

- Creates the Approved Motion Picture Competitiveness Program to provide funding assistance for film production related costs in order to improve the state's competitive position in the film production industry.
- Authorizes a Business and Occupation tax credit for contributions to an Approved Motion Picture Competitiveness Program, up to \$1 million per taxpayer per year, subject to a state maximum of \$5 million in total credits.
- Requires motion picture production companies that receive funding assistance under the new program to complete an annual survey about the impacts on employment, wages, and benefits.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Ericks, Hasegawa, Santos and Shabro.

Staff: Mark Matteson (786-7145).

Background:

In 2003, the Washington State Film Office (WSFO) commissioned a study of the economic impacts of film and video productions in Washington. The report concluded that film and

video production support 8,033 jobs in the state, and the industry created over \$656 million in additional economic output.

The WSFO is located in the Department of Community, Trade, and Economic Development (DCTED). The WSFO works with the Seattle Film Office and 35 film liaisons to assist with film and video location needs. Washington does provide several financial incentives for film and video production. These include: a state and local sales tax exemption on rental of production equipment; state and local sales tax exemptions on the purchase of production services; local and state rental tax exemptions for rental vehicles used in production activities; and sales tax exemption for hotel or motel stays exceeding 30 consecutive days.

Business and Occupation Tax

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2004, B&O tax collection totaled over \$2 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax and include the multiple activities tax credit, the high technology B&O tax credit, and the small business B&O tax credit.

Summary of Amended Bill:

An Approved Motion Picture Competitiveness Program is created and will be administered by the DCTED. An Approved Motion Picture Competitiveness Program is a 501(c)(6) nonprofit organized to recommend and award financial assistance for costs associated with motion pictures in the state in order to improve Washington's competitive position. For the purposes of this program, "motion picture" means a recorded audio-visual production intended for distribution to theaters, DVD, video, or the Internet. It also includes one or more episodes of a single television series, including pilots and presentations, or a commercial that exceeds \$250,000 in actual investment. "Motion picture" does not include one or more segments of a newscast or sporting event.

The DCTED must adopt criteria by which an Approved Motion Picture Competitiveness Program will provide funding assistance. In establishing the criteria, the DCTED must consider: the additional income and tax revenue to be retained in the state for general purposes; the creation and retention of family wage jobs which provide health insurance and payments into a retirement plan; the impact of motion picture projects to maximize in-state labor and the use of in-state film production and post-production companies; the impact on local economies and the state's economy as a whole, including multiplier effects; the

intangible impact on the state and local communities that comes with motion picture projects; the regional, national and international competitiveness of the motion picture filming industry; the revitalization of the state as a premier venue for motion picture production and national television commercial campaigns; partnerships with the private sector to bolster film production in the state and serve as educational and cultural purposes for its citizens; the vitality of the state's motion picture industry as a necessary and critical factor to promote the state as a premier tourist and cultural destination; and giving preference to additional seasons of television series that have previously qualified.

The Washington Motion Picture Competitiveness Program will be administered by a board of directors (Board). Appointed by the Governor, the eight member Board shall consist of: one representative of the Washington motion picture industry; one representative of Washington's postproduction industry; two representatives of labor unions affiliated with Washington's motion picture production; one representative of Washington's Visitors and Convention Bureaus; one representative of Washington's tourism industry; one representative of the restaurant, hotel and airline industry; and an at-large member who will serve as the Board's chairperson.

The funding provided to Approved Motion Picture Competitiveness Programs must be used for health insurance, payments into a retirement plan, and other costs associated with film production. The funding may also be used for a person to market the tax credit for contributions to an Approved Motion Picture Competitiveness Program as well as staff and related expenses necessary for the program's administration. The maximum funding assistance from an Approved Motion Competitiveness Program is limited to: 20 percent of total actual investment in the state of at least \$500,000 for a single feature film produced in Washington; 20 percent of total actual investment in the state of at least \$300,000 per television episode produced in Washington; or 20 percent of total actual investment in the state of at least \$250,000 for an infomercial or television commercial associated with a national or regional advertisement campaign produced in Washington.

A credit against the state's B&O tax is allowed for contributions made to a Washington Motion Picture Competitiveness Program. The credit is equal to 90 percent of the contribution made to the program, up to a maximum of \$1 million annually per business. A statewide cap of \$5 million per fiscal year is imposed and the credits are available on a first-come basis. A person may carry over the amount of the tax credit not taken in a calendar year. Credit may be earned for activity on or after July 1, 2006.

Persons who receive funding assistance under the new program must complete and file a survey by March 31 of the year after the year in which they receive assistance. The survey is to be administered by the DCTED and must address certain employment, wage, and benefits information. Persons that fail to submit a survey are required to repay the amounts received. The DCTED must submit summary statistics based on surveys received to the Legislature every September.

The Joint Legislative Audit and Review Committee shall make a recommendation on the effectiveness of the B&O tax credit to the House Finance Committee and the Senate Ways and Means Committee in December 2010.

Amended Bill Compared to Second Substitute Bill:

Limits the amount of B&O tax credit that may be earned to 90 percent of contributions made to the new program. Requires recipients of funding assistance under the new program to report employment, wage, and benefits information to the DCTED.

Appropriation: None.

Fiscal Note: Available on bill as passed Senate.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The film industry is very important. Production levels have dropped off dramatically. In 2004, there was just \$9 million in investment in this state, comparing to over \$100 million in British Columbia. Production companies will film anywhere, and films that are often based here are in fact shot elsewhere. This will help boost tourism.

This is designed to be an assault on the Oregon approach. In 2003, the Oregon Legislature passed a similar mechanism to pay for a 10 percent cost abatement program. The governor there recently signed a labor cost abatement bill aimed at attracting film industry to that state. In Idaho, there has been a state film task force set up to look at what measures the state might develop to attract industry there. Our Spokane-based North by Northwest has been asked to participate.

You are familiar with the argument on economic impacts. When "Rose Red" was filmed in 2002, over \$18 million was spent here. Of that, \$10 million was spent on salaries for local workers, \$1 million on construction, \$800,000 on hotels, and \$2 million to rent facilities. This incentives package will help bring back some business that has been going on in Canada. This creates salaries for independent contractors. No money is spent out of the fund until matching dollars have been spent.

The proposed amendment to limit the credit to 90 percent of contributions will kill the bill. The local industry is very small. In order to attract productions, we already have to discount services by 10 to 20 percent to compete with Oregon and Vancouver.

There are several misconceptions that need to be addressed. One is that production companies come here because it is so beautiful here. Most movies can be shot anywhere. Yesterday, I got a call from a props person that has been hired by a production in Canada and her assignment is to gather props from Seattle, because the film storyline is based in Seattle. A second misconception is that big out-of-state film crews come here and then leave. We have a lot of workforce here that relies on this industry. North by Northwest has a year-round staff

that works closely with out-of-state production companies. We are fully behind the bill as it came out of the Senate. These are not hypothetical jobs.

Testimony Against: None.

Persons Testifying: Senator Kohl-Welles, prime sponsor; Jim Hedrick and Don Jensen, Washington Entertainment Industry Players Association; and David Robinson, IATSE 488.

Persons Signed In To Testify But Not Testifying: None.